

MILFORD MUNICIPAL UTILITIES
(A Component Unit of the City of Milford, Iowa)

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2015

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MILFORD MUNICIPAL UTILITIES
MILFORD, IOWA

JUNE 30, 2015

OFFICIALS

Before January 1, 2015

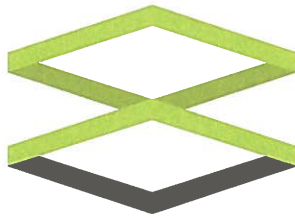
<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Keith Wurtz	Trustee (Chairman)	December 31, 2014
Todd Johnson	Trustee (Vice Chairman)	December 31, 2015
Michael Anderson	Trustee	December 31, 2019
Lisa Duffy	Trustee	December 31, 2017
Wanda Nelson	Trustee	December 31, 2018

After January 1, 2015

Keith Wurtz	Trustee (Chairman)	December 31, 2020
Todd Johnson	Trustee (Vice Chairman)	December 31, 2015
Michael Anderson	Trustee	December 31, 2019
Lisa Duffy (resigned April 6, 2015)	Trustee	December 31, 2017
Wanda Nelson	Trustee	December 31, 2018
Suzanne Prunty (appointed May 11, 2015)	Trustee	December 31, 2017

Eric Stoll	General Manager
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Paula Nordblad	Office Manager / Board Secretary
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

Report on the Financial Statements

We have audited the accompanying basic financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the electric and water enterprise funds of Milford Municipal Utilities at June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the electric and water enterprise funds of Milford Municipal Utilities, a component unit of the City of Milford, and do not purport to, and do not, present fairly the financial position of the City of Milford as of June 30, 2015 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 10 to the financial statements, the Utilities adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Utilities' June 30, 2014 financial statements, and our report dated October 29, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it had been derived. Such information has not been restated to reflect the matter discussed in Note 10 to the financial statements.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utilities' Proportionate Share of the Net Pension Liability, the Schedule of Utilities' Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 8 and 32 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milford Municipal Utilities' internal control over financial reporting and compliance.

Winkler, Starnes Co., LLP

October 30, 2015
Spencer, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Milford Municipal Utilities (MMU) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2014 - 2015 FINANCIAL HIGHLIGHTS

- MMU's operating revenues increased 5.91%, or \$259,647, from fiscal 2014 to fiscal 2015.
- Operating expenses increased 6.24%, or \$215,498, in fiscal 2015 from fiscal 2014.
- The MMU's net position increased 8.41%, or \$926,116, during 2015.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of MMU's financial activities.

Financial statements for each enterprise fund report information about MMU's operations.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to MMU's budget for the year, the proportionate share of the IPERS net pension liability, and the schedule of the Utilities' IPERS contributions for 10 years, and a schedule of retiree health plan funding progress.

The Supplementary Information in Schedules 1 and 2 provides detailed information about the usage levels of each utility.

REPORTING MMU'S FINANCIAL ACTIVITIES

Financial Statements

Milford Municipal Utilities utilizes proprietary funds to account for MMU's enterprise funds and to report business type activities. MMU maintains two funds to provide separate information for the electric and water funds, which are considered to be major funds of MMU.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in combined net position for the electric and water funds.

Net Position at Year Ended June 30, 2015		
	2015	2014 (Not restated)
Current and other assets	\$ 3,885,426	\$ 3,369,492
Capital assets - net of depreciation	13,382,598	12,162,570
Deferred outflows of resources	69,034	
Total assets and deferred outflows of resources	<u>17,337,058</u>	<u>15,532,062</u>
Long-term debt outstanding	3,969,461	3,180,100
Other liabilities	1,332,918	1,031,242
Deferred inflows of resources	101,310	
Total liabilities and deferred inflows of resources	<u>5,403,689</u>	<u>4,211,342</u>
Net position:		
Net investment in capital assets	9,234,157	8,596,602
Restricted	205,482	321,474
Unrestricted	<u>2,493,730</u>	<u>2,402,644</u>
Total net position	<u>\$11,933,369</u>	<u>\$11,320,720</u>

Changes in Net Position for the Year Ended June 30, 2015		
	2015	2014 (Not restated)
Revenues:		
Total operating revenues	\$ 4,649,409	\$ 4,389,762
General revenues:		
Interest and other income	12,270	10,518
Total revenues	<u>4,661,679</u>	<u>4,400,280</u>
Program expenses:		
Business type activities	3,735,563	3,532,128
Total expenses	<u>3,735,563</u>	<u>3,532,128</u>
Change in net position	926,116	868,152
Net position - beginning of year (2015 restated)	<u>11,007,253</u>	<u>10,452,568</u>
Net position - end of year	<u>\$11,933,369</u>	<u>\$11,320,720</u>

INDIVIDUAL MAJOR FUND ANALYSIS

- Electric Fund revenues showed an increase of \$194,822. Revenue from customers increased \$159,627 due to a rate increase and restructuring, and increased industrial load. Neal #4 and diesel credits increased marginally by \$22,525. The Electric Fund operating expenses increased \$209,966, attributable to the increase in distribution and equipment maintenance and NIMECA power costs, depreciation and employee benefits. The ending fund balance was \$7,827,931, an increase of \$378,322 from last year.
- Water Fund revenues increased by \$64,825. There were no rate changes during fiscal year ending June 30, 2015. Operating expenses increased \$5,532. The ending fund balance was \$4,105,438, an increase of \$547,794 from the prior year.

BUDGETARY HIGHLIGHTS

MMU's disbursements for business type activities did not exceed the budgeted limit for 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, MMU had approximately \$13.4 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions, net of depreciation) of \$1,220,028 or 10.03% as compared with last year. Depreciation charges totaled \$562,488 for the fiscal year 2015. Total accumulated depreciation was \$11,662,929 at June 30, 2015. See Note 3 to the financial statements for more information about MMU's capital assets.

LONG-TERM DEBT/LIABILITIES

At June 30, 2015, MMU had \$4,390,092 in revenue bonds outstanding compared to \$3,825,286 at June 30, 2014. Additional information about MMU's long-term debt, including the net OPEB liability and net pension liability, is presented in Notes 5 and 8 to the financial statements. Information related to a restatement of June 30, 2014 net position to reflect new pension liability reporting standards is presented in Note 10.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

MMU has adopted a ten-year Water Master Plan which includes a new water intake and upgrades to the current intake to control the attachment of the invasive zebra mussel, clarifier improvements, filter waste handling improvements, ASR cycle testing and three water main projects. MMU began a twelve month pilot project with the IDNR and Macro Tech's copper ion system in February 2014. The IDNR has approved the copper ionization system for zebra mussel control. That system in addition to the new Water Intake is installed and complete as of August 2015.

MMU instituted a Water Customer Charge in December 2013. This is expected to cash flow financing of the projects in the ten year plan mentioned above.

A comprehensive electric rate, cost of service, and cash flow study was completed in January of 2015 by DGR and Associates. Based on this study MMU restructured its rates with a goal of an overall increase of 5%. The restructuring re-aligned each rate class so that each class is paying for their share of the cost to serve that class.

Consistent with the need to invest for the future, MMU joined with other cities and utilities in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight many years ago to invest in renewable energy. In 1976, MMU power supplies were once again getting tight and MMU needed to invest in an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997, MMU added 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and emergency power use. Once again, MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has an agreement to purchase power from the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa and in the Crosswinds Wind Farm south of Ruthven, Iowa. This amounts to a combined total of 40% for renewable energy. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Even with the additional wind resources, MMU will still need a reliable baseload or intermediate resource to cover our expected load growth, replace existing aging power supplies, and to cover periods when the wind doesn't blow. MMU is now exploring other options to ensure a safe, reliable backup to wind generation. This includes possible agreements with other power suppliers and the installation of natural gas powered turbines.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Avenue, Milford, Iowa 51351.

BASIC FINANCIAL STATEMENTS

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	Electric Fund	Water Fund	Total 2015	Total 2014 (Not restated)
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents:				
Undesignated	\$ 413,678	\$ 459,005	\$ 872,683	\$ 672,222
Board designated:				
Improvement and extension	59,366	99,808	159,174	147,057
Water service fee funds		407,245	407,245	132,373
Vehicle and equipment funds	229,195	67,953	297,148	246,135
Fuel oil fund	12,886		12,886	12,854
Community development fund	92,146		92,146	91,916
Total cash and cash equivalents	807,271	1,034,011	1,841,282	1,302,557
Accounts receivable	438,270	179,778	618,048	542,959
Inventory	442,006	39,085	481,091	514,297
Prepaid expenses	39,899	97,775	137,674	74,507
Other receivables	7,576	1,713	9,289	438
TOTAL CURRENT ASSETS	<u>1,735,022</u>	<u>1,352,362</u>	<u>3,087,384</u>	<u>2,434,758</u>
NONCURRENT ASSETS:				
Other assets:				
Purchased service rights - at cost	13,470		13,470	13,470
Total other assets	<u>13,470</u>		<u>13,470</u>	<u>13,470</u>
Restricted assets:				
Consumers' deposit fund	50,517		50,517	50,391
Revenue bond sinking fund		26,844	26,844	26,777
Principal and interest reserve		116,956	116,956	116,664
CTS - improvement fund	178,638		178,638	294,697
Loan proceeds for future capital improvements	241,651		241,651	259,318
Emission allowances	18,284		18,284	18,247
Whelan #2 Reserve	69,370		69,370	51,175
Neal #4	15,122		15,122	54,951
Deposit for Interconnection WAPA Study	151		151	151
Engine maintenance	67,039		67,039	48,893
Total restricted assets	<u>640,772</u>	<u>143,800</u>	<u>784,572</u>	<u>921,264</u>
TOTAL NONCURRENT ASSETS	<u>654,242</u>	<u>143,800</u>	<u>798,042</u>	<u>934,734</u>
CAPITAL ASSETS:				
Capital assets	16,115,992	8,929,535	25,045,527	23,283,639
Accumulated depreciation	<u>(7,994,466)</u>	<u>(3,668,463)</u>	<u>(11,662,929)</u>	<u>(11,121,069)</u>
TOTAL CAPITAL ASSETS - NET	<u>8,121,526</u>	<u>5,261,072</u>	<u>13,382,598</u>	<u>12,162,570</u>
TOTAL ASSETS	10,510,790	6,757,234	17,268,024	15,532,062
DEFERRED OUTFLOWS OF RESOURCES:				
Pension related deferred outflows	<u>43,540</u>	<u>25,494</u>	<u>69,034</u>	
TOTAL	<u>\$10,554,330</u>	<u>\$ 6,782,728</u>	<u>\$17,337,058</u>	<u>\$15,532,062</u>

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF NET POSITION - Continued
JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	Electric Fund	Water Fund	Total 2015	Total 2014 (Not restated)
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	\$ 227,189	\$ 265,372	\$ 492,561	\$ 227,819
Accrued employee benefits	2,905	1,152	4,057	5,729
Accrued payroll	28,577	21,166	49,743	46,202
Accrued payroll taxes	1,383	809	2,192	2,288
Accrued sales tax	9,034	4,689	13,723	11,971
Accrued property tax	12,962		12,962	14,881
Accrued wheeling	8,736		8,736	8,686
Consumers' deposits	26,598	6,559	33,157	46,739
Current portion long-term debt	<u>431,961</u>	<u>283,826</u>	<u>715,787</u>	<u>666,927</u>
TOTAL CURRENT LIABILITIES	<u>749,345</u>	<u>583,573</u>	<u>1,332,918</u>	<u>1,031,242</u>
LONG-TERM DEBT:				
Revenue notes payable	2,162,039	2,228,053	4,390,092	3,825,286
Less current portion above	(431,961)	(283,826)	(715,787)	(666,927)
Net pension liability	166,614	99,033	265,647	
Net OPEB liability	<u>16,820</u>	<u>12,689</u>	<u>29,509</u>	<u>21,741</u>
TOTAL LONG-TERM DEBT	<u>1,913,512</u>	<u>2,055,949</u>	<u>3,969,461</u>	<u>3,180,100</u>
TOTAL LIABILITIES	<u>2,662,857</u>	<u>2,639,522</u>	<u>5,302,379</u>	<u>4,211,342</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenues:				
Pension related deferred inflows	<u>63,542</u>	<u>37,768</u>	<u>101,310</u>	
NET POSITION:				
Net investment in capital assets	6,201,138	3,033,019	9,234,157	8,596,602
Restricted for:				
Debt service		26,844	26,844	26,777
Capital projects	178,638		178,638	294,697
Unrestricted	<u>1,448,155</u>	<u>1,045,575</u>	<u>2,493,730</u>	<u>2,402,644</u>
TOTAL NET POSITION	<u>7,827,931</u>	<u>4,105,438</u>	<u>11,933,369</u>	<u>11,320,720</u>
TOTAL	<u>\$10,554,330</u>	<u>\$ 6,782,728</u>	<u>\$17,337,058</u>	<u>\$15,532,062</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	Electric Fund	Water Fund	Total 2015	Total 2014 (Not restated)
OPERATING REVENUES:				
Residential	\$ 1,407,117	\$ 687,182	\$ 2,094,299	\$ 2,122,084
Commercial	528,789	506,737	1,035,526	1,035,022
Demand	886,913		886,913	621,589
Tank water sales		3,070	3,070	2,706
Meter sales		8,824	8,824	11,904
Public authorities	92,721		92,721	98,521
Water department	39,027		39,027	39,324
Neal #4 credits	191,672		191,672	184,761
Diesel credits	253,238		253,238	237,624
Consumer penalties	7,550	1,541	9,091	7,757
Miscellaneous income	30,985	4,043	35,028	28,470
TOTAL OPERATING REVENUES	<u>3,438,012</u>	<u>1,211,397</u>	<u>4,649,409</u>	<u>4,389,762</u>
OPERATING EXPENSES:				
Direct costs	1,930,357	119,929	2,050,286	1,884,865
Operating expenses	332,776	199,577	532,353	546,121
Administrative expenses	760,048	323,716	1,083,764	1,019,919
TOTAL OPERATING EXPENSES	<u>3,023,181</u>	<u>643,222</u>	<u>3,666,403</u>	<u>3,450,905</u>
OPERATING INCOME	<u>414,831</u>	<u>568,175</u>	<u>983,006</u>	<u>938,857</u>
NON-OPERATING INCOME (EXPENSE):				
Interest income	4,716	1,431	6,147	5,164
Other income	4,375	1,748	6,123	5,354
Interest expense	(45,600)	(23,560)	(69,160)	(81,223)
TOTAL NON-OPERATING EXPENSES - NET	<u>(36,509)</u>	<u>(20,381)</u>	<u>(56,890)</u>	<u>(70,705)</u>
CHANGE IN NET POSITION	378,322	547,794	926,116	868,152
NET POSITION - BEGINNING OF YEAR (2015 RESTATED)	<u>7,449,609</u>	<u>3,557,644</u>	<u>11,007,253</u>	<u>10,452,568</u>
NET POSITION - END OF YEAR	<u>\$ 7,827,931</u>	<u>\$ 4,105,438</u>	<u>\$11,933,369</u>	<u>\$11,320,720</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	Electric Fund	Water Fund	Total 2015	Total 2014 (Not restated)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$3,341,920	\$1,211,696	\$4,553,616	\$4,313,224
Cash paid to suppliers	(2,190,757)	(119,140)	(2,309,897)	(2,490,883)
Cash paid to employees	<u>(281,355)</u>	<u>(166,346)</u>	<u>(447,701)</u>	<u>(435,546)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>869,808</u>	<u>926,210</u>	<u>1,796,018</u>	<u>1,386,795</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(346,131)	(1,436,385)	(1,782,516)	(942,030)
Revenue bond principal repayment	(420,257)	(246,669)	(666,926)	(3,510,357)
Revenue bond proceeds		1,231,732	1,231,732	2,988,489
Interest paid	(45,600)	(23,560)	(69,160)	(81,223)
Restricted bond proceeds used	<u>17,667</u>	<u></u>	<u>17,667</u>	<u>417,401</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(794,321)</u>	<u>(474,882)</u>	<u>(1,269,203)</u>	<u>(1,127,720)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest reinvested		(360)	(360)	(360)
Interest received from investments	4,716	1,431	6,147	5,164
Other income	<u>4,375</u>	<u>1,748</u>	<u>6,123</u>	<u>5,354</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>9,091</u>	<u>2,819</u>	<u>11,910</u>	<u>10,158</u>
NET INCREASE IN CASH	84,578	454,147	538,725	269,233
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>722,693</u>	<u>579,864</u>	<u>1,302,557</u>	<u>1,033,324</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 807,271</u>	<u>\$1,034,011</u>	<u>\$1,841,282</u>	<u>\$1,302,557</u>

MILFORD MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	Electric Fund	Water Fund	Total 2015	Total 2014 (Not restated)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 414,831	\$ 568,175	\$ 983,006	\$ 938,857
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	389,926	172,562	562,488	539,010
Amortization				
(Increase) decrease in:				
Accounts receivable	(76,786)	1,698	(75,088)	(82,234)
Inventory	29,985	3,222	33,207	37,020
Prepaid expenses	371	(63,538)	(63,167)	20,579
Other receivables	(7,452)	(1,399)	(8,851)	2,388
Consumer deposits	(126)		(126)	(127)
Bond issuance costs				2,926
CTS improvement fund	116,059		116,059	(5,265)
Deposit on WAPA study				(1)
Whelon #2 reserves	(18,195)		(18,195)	(8,511)
Emission allowances	(37)		(37)	(541)
Neal #4	39,829		39,829	(43,421)
Engine maintenance	(18,146)		(18,146)	(16,600)
Deferred outflow of resources	(43,540)	(25,494)	(69,034)	
Increase (decrease) in:				
Accounts payable	19,830	244,911	264,741	(13,437)
Accrued employee benefits	(1,421)	(251)	(1,672)	(551)
Accrued payroll taxes	(1,945)	(121)	(2,066)	77
Accrued payroll	24	5,487	5,511	2,377
Accrued sales tax	2,221	(469)	1,752	3,381
Accrued property tax	(1,919)		(1,919)	11
Accrued wheeling	50		50	25
Accrued OPEB	4,428	3,340	7,768	5,737
Consumer deposits	(11,728)	(1,854)	(13,582)	5,095
Net pension liability	(29,993)	(17,827)	(47,820)	
Deferred inflow of resources	63,542	37,768	101,310	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 869,808</u>	<u>\$ 926,210</u>	<u>\$1,796,018</u>	<u>\$1,386,795</u>

See Accompanying Notes to Financial Statements

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Milford Municipal Utilities (Utilities) is a separate and distinct city utility chartered under Iowa Code Section 388. The financial statements of the Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford, Iowa. Milford Municipal Utilities is governed by a five-member Board of Trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore financial information concerning the Utilities is not included.

For financial reporting purposes, Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

Shared Utility Plants

Common Transmission System - North Iowa Municipal Electric Cooperative Association (NIMECA), acting as agent for its participating members, including Milford Municipal Utilities, has entered into an agreement with Corn Belt Power Cooperative to obtain for the benefit of its participating members a long-term right and access to electric transmission facilities, referred to as Common Transmission System (CTS), necessary to handle the combined needs of the participating members through undivided ownership interest in the capacity of transmission facilities. The costs associated with this agreement are allocated to the members based on their proportionate use of the shared transmission system. Milford Municipal Utilities has recorded its share of these costs as capital assets in the Electric Utility Fund. The net book value at June 30, 2015 was \$8,119,527.

Neal 4 Generating Station - Milford Municipal Utilities is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy under terms of the basic generating agreements between MidAmerican Energy and the owners. Milford Municipal Utilities owns 0.347 percent as a tenant-in-common of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. Milford Municipal Utilities' cost of acquiring its share of this generating station was recorded as capital assets in the Electric Utility Fund. The net book value at June 30, 2015 was \$1,222,715.

The operators of both the Common Transmission System and Neal 4 shared utility plants have established accounts to which Milford Municipal Utilities is required to pay its pro rata share, net of revenues earned, of operation and maintenance costs. Any disbursements from these accounts for operating and maintenance costs are reflected in the financial statements of Milford Municipal Utilities. Separate financial statements for these shared utility plants are available in the offices of Milford Municipal Utilities.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Statements

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. Individual enterprise funds are reported as separate columns in the financial statements as follows.

Electric Fund - The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Measurement Focus and Basis of Accounting

The financial statements of the Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed for state and local governments by the Government Accounting Standards Board. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utilities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenue Recognition

Revenues earned are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2015.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost and set forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling, and transportation has been capitalized.

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest of \$20,143 on qualifying assets acquired during the year ended June 30, 2015 was capitalized in the Electric Fund and \$11,900 in the Water Fund.

Replacements and betterments of capital assets are included in capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	20 - 50
Equipment	7 - 20
Distribution System	20 - 67

Restricted Assets

Funds set aside for payment of the Utilities' revenue notes, common transmission system improvements and other accounts are classified as restricted assets since their use is restricted by applicable note indentures and contractual agreements.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

The Utilities' employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred, included in accrued payroll and fund financial statements, and computed based on rates of pay in effect at June 30, 2015. The Utilities' approximate liability for earned vacation and compensatory time payable to employees at June 30, 2015 is \$41,305.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement, or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

Accrued Wheeling and Property Taxes

Accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Utilities' financial statements for the year ended June 30, 2014 from which the summarized information was derived.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford. The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Management's Review

The Utilities has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

2. CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS

The Utilities' deposits in banks at June 30, 2015, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirement of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utilities.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 was as follows:

	Electric Plant			
<u>Electric Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	\$ 58,654			\$ 58,654
Construction in progress	<u>2,000</u>	<u>\$ 78,878</u>	<u>\$ 78,878</u>	<u>2,000</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>60,654</u>	<u>78,878</u>	<u>78,878</u>	<u>60,654</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings	408,546			408,546
Machinery and equipment	1,037,343			1,037,343
Accessory electric equipment	3,366,415			3,366,415
Neal #4	2,418,370	78,878	4,216	2,493,032
Common transmission system	2,000,421	201,184	16,412	2,185,193
Distribution Plant:				
Distribution facilities	5,642,374	46,568		5,688,942
Street lights and signal systems	274,876	1,860		276,736
General Plant:				
Transportation equipment	427,987	15,680		443,667
Other equipment	<u>153,503</u>	<u>1,961</u>		<u>155,464</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	15,729,835	346,131	20,628	16,055,338
Less accumulated depreciation ...	<u>7,625,168</u>	<u>389,926</u>	<u>20,628</u>	<u>7,994,466</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>8,104,667</u>	<u>(43,795)</u>		<u>8,060,872</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 8,165,321</u>	<u>\$ 35,083</u>	<u>\$ 78,878</u>	<u>\$ 8,121,526</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

3. CAPITAL ASSETS - Continued

Capital assets activity for the year ended June 30, 2015 was as follows:

<u>Water Fund</u>	<u>Water Utility Plant</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	\$ 58,144			\$ 58,144
Construction in progress	<u>114,264</u>	<u>\$1,414,883</u>		<u>1,529,147</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>172,408</u>	<u>1,414,883</u>		<u>1,587,291</u>
CAPITAL ASSETS BEING DEPRECIATED:				
Production Plant:				
Buildings	3,237,261			3,237,261
Intakes	102,696			102,696
Equipment	1,137,951			1,137,951
Mains	1,575,539	5,099		1,580,638
Wells	198,130			198,130
Storage and Distribution Plant:				
Towers	481,619			481,619
Mains, hydrants, and service .	219,740			219,740
Meters	295,029	14,585		309,614
General Plant:				
Tools and work equipment	<u>72,777</u>	<u>1,818</u>		<u>74,595</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>7,320,742</u>	<u>21,502</u>		<u>7,342,244</u>
Less accumulated depreciation ...	<u>3,495,901</u>	<u>172,562</u>		<u>3,668,463</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED - NET	<u>3,824,841</u>	<u>(151,060)</u>		<u>3,673,781</u>
TOTAL CAPITAL ASSETS - NET	<u>\$ 3,997,249</u>	<u>\$1,263,823</u>		<u>\$5,261,072</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

4. REVENUE NOTES PAYABLE

A summary of the changes in revenue notes for the year ended June 30, 2015 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Electric Fund:					
Series 2013 revenue notes	<u>\$2,582,296</u>		<u>\$ 420,257</u>	<u>\$2,162,039</u>	<u>\$ 431,961</u>
Total electric revenue notes	<u>2,582,296</u>		<u>420,257</u>	<u>2,162,039</u>	<u>431,961</u>
Water Fund:					
Series 2003 revenue notes	388,261		99,269	288,992	101,709
Series 2005 revenue notes	756,240		147,400	608,840	152,163
Series 2013 revenue notes	<u>98,489</u>	<u>\$1,231,732</u>		<u>1,330,221</u>	<u>29,954</u>
Total water revenue notes	<u>1,242,990</u>	<u>1,231,732</u>	<u>246,669</u>	<u>2,228,053</u>	<u>283,826</u>
 TOTAL REVENUE NOTES	 <u>\$3,825,286</u>	 <u>\$1,231,732</u>	 <u>\$ 666,926</u>	 <u>\$4,390,092</u>	 <u>\$ 715,787</u>

Electric Fund

During the year ended June 30, 2013, the Utilities issued electric revenue notes (Series 2013) in the amount of \$2,890,000 to refund the Series 2008, 2009, and 2011 Revenue Notes. The notes require monthly payments of \$40,500, including interest at 2.75%, and mature on April 1, 2020.

The Series 2013 notes are secured by future net revenues of the Electric Utility. Annual principal and interest payments on the notes are expected to require less than 60% of net revenues. The total principal and interest remaining to be paid on the notes is \$2,308,500. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$486,000 and \$804,757, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

During the year ended June 30, 2015, the Electric Utility was in compliance with the revenue note provisions.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

4. REVENUE NOTES PAYABLE - Continued

Electric Fund - Continued

A summary of the Electric Fund's annual principal and interest requirements to maturity by year is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 431,961	\$ 54,039	\$ 486,000
2017	443,991	42,009	486,000
2018	456,356	29,644	486,000
2019	469,065	16,935	486,000
2020	<u>360,666</u>	<u>3,834</u>	<u>364,500</u>
Total	<u>\$2,162,039</u>	<u>\$146,461</u>	<u>\$2,308,500</u>

Water Fund

On June 24, 2003, the Utilities issued water revenue notes (Series 2003), in the amount of \$1,200,000. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2008 and July 1, 2013, respectively, plus 100 basis points. The rate cannot go above 5.50%. The rate adjusted from 4.34% to 2.43% on July 1, 2013. The notes require monthly payments of \$8,966, including interest, and mature on May 1, 2018.

On May 25, 2005, the Utilities issued water revenue notes (Series 2005) in the amount of \$1,800,000. The notes accrue a five-year adjustable interest rate based on five-year US Treasury Bonds maturing most closely to July 1, 2010 and July 1, 2015, respectively, plus 25 basis points. The rate adjusted from 2.21% to 1.94% on July 1, 2015. The notes require monthly payments of \$13,552, including interest, and mature on June 1, 2019.

On June 30, 2014, the Utilities issued water revenue notes (Series 2014) in the amount of \$1,400,000 or such amount as shall be advanced and outstanding. The notes accrue a five-year adjustable interest rate, currently 2.50%, based on five-year US Treasury Bonds maturing most closely to July 1, 2019, July 1, 2024 and July 1, 2029, respectively, plus 100 basis points. The rate shall in no event exceed the prior rate by more than 100 basis points (1%); and the rate so adjusted shall in no event be below 2.5% per annum. The notes require monthly interest only payments until December 31, 2015 and monthly principal and interest payments of \$7,883 beginning February 1, 2016 and mature on July 1, 2034.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

4. REVENUE NOTES PAYABLE - Continued

Water Fund - Continued

The revenue notes are secured by future net revenues of the Water Utility. Annual principal and interest payments on the notes are expected to require less than 45% of net revenues. The total principal and interest remaining to be paid on the notes is \$2,625,604. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$282,119 and \$740,737, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2015, the Water Utility was in compliance with the revenue note provisions.

A summary of the Water Fund's annual principal and interest requirements to maturity by year is as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 283,826	\$ 47,282	\$ 331,108
2017	320,391	44,435	364,826
2018	303,838	37,335	341,173
2019	207,528	31,788	239,316
2020	65,792	28,806	94,598
2021 - 2025	354,771	118,214	472,985
2026 - 2030	401,957	71,029	472,986
2031 - 2034	<u>289,950</u>	<u>18,662</u>	<u>308,612</u>
Total	<u>\$2,228,053</u>	<u>\$ 397,551</u>	<u>\$2,625,604</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

5. PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Utilities, except for those covered by another retirement system. Employees of the Utilities are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, IA 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 12, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

5. PENSION PLAN - Continued

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utilities contributed 8.93 percent for a total rate of 14.88 percent.

The Utilities' total contributions to IPERS for the year ended June 30, 2015 were \$38,979.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Utilities reported a liability of \$265,647 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities' proportion of the net pension liability was based on the Utilities' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utilities' collective proportion was .006564 percent which was an increase of .000336 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Utilities recognized pension expense of \$23,435. At June 30, 2015, the Utilities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,887	
Changes of assumptions	11,724	
Net difference between projected and actual earnings on pension plan investments		\$ 101,310
Changes in proportion and differences between Utilities' contributions and proportionate share of contributions	15,439	
Utilities contributions subsequent to the measurement date ..	<u>38,984</u>	
 TOTAL	 <u>\$ 69,034</u>	 <u>\$ 101,310</u>

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

5. PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

\$38,984 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Total</u>
2016	\$ (18,307)
2017	(18,307)
2018	(18,307)
2019	(18,305)
2020	<u>1,966</u>
	<u>\$ (71,260)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

5. PENSION PLAN - Continued

Actuarial Assumptions - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31%
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utilities will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utilities' proportionate share of the net pension liability	\$ 501,933	\$ 265,647	\$ 66,198

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

5. PENSION PLAN - Continued

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the Utilities reported payables to the defined benefit pension plan of \$3,040 for legally required employer contributions and \$2,025 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

6. RATES

The Electric Utility restructured user rates for meter charges and consumption of each rate class with a goal of an overall increase of 5% effective with the April 30, 2015 billing.

7. LEASES

The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The Electric Utility's total investment of \$2,493,032 is included in utility plant in service with \$1,270,317 included in accumulated depreciation. The lease of the Neal 4 plant is a long-term commitment based on capacity, and the revenues from such leases are included in operating income. The amount is determined by a formula based on usage and totaled \$183,611 for 2015.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description. The Utilities operate a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their families. There are seven active members in the Plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the Utilities. The Utilities currently finances the retiree benefit plan on a pay-as-you-go basis.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Annual OPEB Cost and NET OPEB Obligation. The Utilities' annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Utilities' annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan, and changes in the Utilities' net OPEB obligation:

	<u>2015</u>
Annual required contribution	\$ 8,238
Interest on net OPEB obligation	544
Adjustment to annual required contribution	<u>1,014</u>
Annual OPEB cost	7,768
Contributions made	<u>7,768</u>
Increase in net OPEB obligation	21,741
Net OPEB obligation - beginning of year	<u>29,509</u>
Net OPEB obligation - end of year	<u>\$ 29,509</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the Utilities made no contributions to the medical plan. Plan members eligible for benefits contributed 100% of the premium cost.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 7,546	0%	\$ 16,004
2014	5,737	0%	21,741
2015	7,768	0%	29,509

Funded Status and Funding Progress. As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$52,726, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$52,726. The covered payroll (annual payroll of active employees covered by the plan) was \$444,411 and the ratio of the UAAL to cover payroll was 11.86%. As of June 30, 2015, there were no trust fund assets.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions included a 2.5% interest discount rate. The projected annual medical trend rate is 6%, with an inflation rate of 0% assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from IPERS and applying the termination factors used by IPERS. The UAAL is being amortized as a level dollar amount on an open basis over 30 years.

9. RISK MANAGEMENT

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MILFORD MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

10. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measure date, as follows:

	Business Type Activities		
	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Net position June 30, 2014, as previously reported	\$7,646,216	\$3,674,504	\$11,320,720
Net pension liability at June 30, 2014	(221,156)	(131,452)	(352,608)
Change in outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>24,549</u>	<u>14,592</u>	<u>39,141</u>
Net position July 1, 2014, as restated	<u>\$7,449,609</u>	<u>\$3,557,644</u>	<u>\$11,007,253</u>

REQUIRED SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Net</u>
		<u>Original</u>	<u>Final</u>	<u>Variance</u>
REVENUES:				
Charges for services	\$ 4,649,409	\$ 4,383,945	\$ 4,691,945	\$ (42,536)
Non-operating	<u>12,270</u>	<u>11,424</u>	<u>11,424</u>	<u>846</u>
TOTAL REVENUES	<u>4,661,679</u>	<u>4,395,369</u>	<u>4,703,369</u>	<u>(41,690)</u>
EXPENSES:				
Electric	3,068,781	2,874,069	3,155,234	86,453
Water	<u>666,782</u>	<u>775,118</u>	<u>775,118</u>	<u>108,336</u>
TOTAL EXPENSES	<u>3,735,563</u>	<u>3,649,187</u>	<u>3,930,352</u>	<u>194,789</u>
NET CHANGE IN NET POSITION	<u>926,116</u>	<u>746,182</u>	<u>773,017</u>	<u>\$ 153,099</u>
NET POSITION AT BEGINNING OF YEAR	<u>11,007,253</u>	<u>10,942,675</u>	<u>10,942,675</u>	
NET POSITION AT END OF YEAR	<u>\$11,933,369</u>	<u>\$11,688,857</u>	<u>\$11,715,692</u>	

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2015

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the Utilities.

In accordance with the Code of Iowa, the Milford Municipal Utilities annually adopts a budget following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based upon functions, not by fund. All of the Utilities' disbursements are included in business-type activities function. During the year, one budget amendment increased budgeted disbursements by \$281,165.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF THE UTILITIES' PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>
Utilities' proportion of the net pension liability (asset)	0.006564%
Utilities' proportionate share of the net pension liability	\$ 353
Utilities' covered-employee payroll	\$ 438
Utilities' proportionate share of the net pension liability as a percentage of its covered-employee payroll	80.59%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

NOTE: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF UTILITIES' CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS*
(In Thousands)

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 39	\$ 39	\$ 35	\$ 33
Contributions in relation to the statutorily required contribution	<u>(39)</u>	<u>(39)</u>	<u>(35)</u>	<u>(33)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Utilities' covered-employee payroll	\$ 436	\$ 438	\$ 403	\$ 411
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 27	\$ 26	\$ 23	\$ 23	\$ 21	\$ 21
<u>(27)</u>	<u>(26)</u>	<u>(23)</u>	<u>(23)</u>	<u>(21)</u>	<u>(21)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 388	\$ 390	\$ 370	\$ 388	\$ 358	\$ 362
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

Changes of Benefit Terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study.

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

MILFORD MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY -
Continued
FOR THE YEAR ENDED JUNE 30, 2015

Changes of Assumptions - Continued:

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

MILFORD MUNICIPAL UTILITIES
FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	July 1, 2011	0	\$42,060	\$42,060	0%	\$406,729	10.34%
2013	July 1, 2011	0	\$40,712	\$40,712	0%	\$417,631	9.75%
2014	July 1, 2011	0	\$40,342	\$40,342	0%	\$445,857	9.05%
2015	July 1, 2014	0	\$52,726	\$52,726	0%	\$444,411	11.86%

See Note 8 to the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

SUPPLEMENTARY INFORMATION

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
DIRECT COSTS:		
Distribution maintenance	\$ 37,405	\$ 10,775
Equipment maintenance	38,721	13,519
Neal #4 charges - coal, oil, power generator	457,651	402,068
Purchased power	7,101	6,923
Purchased power - NIMECA	682,261	927,827
Purchased power - NIMECA transmission operating	104,869	
Purchased power - NIMECA transmission	163,777	
Purchased power - WAPA	392,182	392,692
Wheeling	17,522	17,396
Miscellaneous transmission expense	<u>28,868</u>	
TOTAL DIRECT COSTS	<u>1,930,357</u>	<u>1,771,200</u>
OPERATING EXPENSES:		
Administrative Salaries	133,967	269,017
Operational salaries	139,880	
Small tools and supplies	22,538	32,710
Sub-contractor	18,611	17,096
Vehicle expense	17,772	21,477
Miscellaneous operating expenses	<u>8</u>	<u>18</u>
TOTAL OPERATING EXPENSES	<u>332,776</u>	<u>340,318</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND - Continued
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

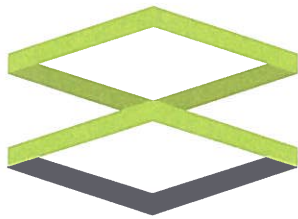
	<u>2015</u>	<u>2014</u>
ADMINISTRATIVE EXPENSES:		
Advertising		\$ 385
Bad debts	\$ 3,189	2,934
Bond expense		22,537
Building maintenance - office	8,633	16,480
Building maintenance - mowing	2,354	1,979
Community development	60,664	60,363
Computer repairs and maintenance	7,737	9,255
Computer supplies and programs	10,093	8,853
Depreciation	389,926	361,399
Director fees	2,611	2,724
Dues and subscriptions	4,559	4,881
Education and safety	3,328	4,125
Employee benefits	67,478	46,269
Insurance - general	45,231	42,834
Laundry and uniforms	1,361	880
Legal and professional	37,761	19,697
Iowa Utilities Board	5,711	
Maintenance - office equipment	940	930
Miscellaneous administrative expenses	2,498	2,009
NIMECA service charges	16,319	
NIMECA dues	11,670	
Office supplies	3,959	3,067
Payroll taxes - FICA and IPERS	34,792	43,085
Postage	5,339	5,310
Property taxes	11,064	14,903
Energy efficiency	17,960	14,944
Supplies	770	292
Telephone	3,651	3,362
Travel	1,102	3,692
Utilities and sanitation	1,707	1,884
Inventory adjustment	(2,359)	2,624
TOTAL ADMINISTRATIVE EXPENSES	<u>760,048</u>	<u>701,697</u>
 TOTAL	 <u>\$3,023,181</u>	 <u>\$2,813,215</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
DIRECT COSTS:		
Distribution maintenance	\$ 14,018	\$ 14,579
Equipment maintenance	5,563	10,964
Lab	10,914	10,193
Plant maintenance	9,948	4,973
Product - chlorine and fluoride	39,964	32,979
Purchased power	<u>39,522</u>	<u>39,977</u>
TOTAL DIRECT COSTS	<u>119,929</u>	<u>113,665</u>
OPERATING EXPENSES:		
Salaries	169,620	174,643
Small tools and supplies	4,218	1,158
Sub-contractor	21,556	21,651
Vehicle expense	<u>4,183</u>	<u>8,351</u>
TOTAL OPERATING EXPENSES	<u>199,577</u>	<u>205,803</u>

MILFORD MUNICIPAL UTILITIES
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND - Continued
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ADMINISTRATIVE EXPENSES:		
Advertising	\$ 102	
Bad debt expense (recovery)	949	\$ (444)
Bond expense	11,423	740
Building maintenance - mowing	1,249	1,236
Community development	334	
Computer repairs and maintenance	4,371	9,347
Computer supplies and programs	5,959	7,570
Depreciation	172,562	177,611
Director fees	2,584	2,669
Dues and subscriptions	4,148	2,396
Education and safety	3,142	2,590
Employee benefits	42,412	37,610
Insurance - general	26,347	21,633
Laundry and uniforms	1,008	473
Legal and professional	7,441	5,969
Maintenance - office equipment	811	773
Miscellaneous	879	1,712
Office supplies	3,548	2,829
Payroll taxes - FICA and IPERS	20,566	28,474
Postage	5,419	5,310
Supplies	87	129
Telephone	1,820	2,012
Travel	541	
Utilities and sanitation	5,985	6,847
Inventory adjustment	29	736
TOTAL ADMINISTRATIVE EXPENSES	<u>323,716</u>	<u>318,222</u>
 TOTAL	 <u>\$ 643,222</u>	 <u>\$ 637,690</u>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Milford Municipal Utilities
Milford, IA 51351

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the electric and water enterprise funds of Milford Municipal Utilities (Utilities) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Milford Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-15 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' Responses to Findings

Milford Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winther, Starn & Co., LLC

October 30, 2015
Spencer, Iowa

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

Part I: Findings Related to the Financial Statements

Internal Control Deficiency:

I-A-15 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

MILFORD MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2015

Part II: Other Findings Related to Required Statutory Reporting

- II-A-15 Certified Budget - Disbursements during the year ended June 30, 2015 did not exceed the amounts budgeted in the business type activities function.
- II-B-15 Questionable Disbursements - No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-15 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-15 Business Transactions - No business transactions between the Utilities and Utility officials or employees were noted.
- II-E-15 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-15 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-15 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-15 Revenue Notes - No instances of non-compliance with the electric and water revenue note provisions were noted.